RESTRUCTURING ARAB STOCK EXCHANGES: *IMPLICATIONS ON GOVERNANCE* [1]

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The stock exchange industry has experienced a whirlwind of change in the past two decades, whereby most large international exchanges now operate as private and in some cases listed companies, not unlike the companies listed on them. Today, only 12% of the largest stock markets which are members of the World Federation of Stock Exchanges [2] are organised as associations and even demutualised markets are now a minority, at 14% globally. While privately owned and self-listed exchanges are now widespread across the Americas, Europe, and parts of Asia, even 15 years ago, this scenario would have been unimaginable.

Arab exchanges remain somewhat of an outlier in the world of increasingly privately-owned and self-listed exchanges. This reflects the history of the emergence of exchanges in the region as governmental bodies, with the exception of the Palestine Exchange which emerged out of a private sector initiative. Apart from the Palestinian bourse, the Dubai Financial Market which self-listed 20% of its shares, and four exchanges whose ownership is mutualised [3], all other exchanges in the region are organised as state-owned, incorporated or administrative entities.[4]

Exchange privatisation has not been a hot topic in the Middle East and North Africa (MENA) region until recently, owing to the history of institution building and the structure of capital markets in the region. However, the interest in restructuring the ownership and legal form of Arab exchanges has grown in recent years, as witnessed by the ongoing discussions related to the corporatisation and privatisation of the Kuwait Stock Exchange and the demutualisation of the Moroccan Stock Exchange. Borsa Istanbul was transformed into a corporate entity last year, following significant structural changes that saw the merger of Turkish securities and commodities markets. Tadawul was corporatised even earlier, paving the way to other potential ownership changes and other bourses, such as the Lebanese and Egyptian exchanges, are increasingly interested in exploring similar ownership transitions.

A number of important issues relevant to the future development of Arab capital markets and, more narrowly, for the ongoing development of corporate governance practices in listed companies are raised by these actual and potential ownership transitions of Arab bourses, which remain a centrepiece of national capital markets and financial center development strategies. First, how might the new ownership arrangements affect the role of stock exchanges as "guardians at the gate" of good corporate governance? [5] Secondly, would transition to private ownership help Arab exchanges address some of the market development challenges such as increasing

1 This article is based on report of the OECD released in December in Oman. The full report, including case studies of individual markets, can be accessed at: http://oecd.org/daf/ca/mena-corporate-governance.htm.
2 The World Federation of Stock Exchanges (WFE) is trade association of 62 publicly regulated stock, futures and options exchanges.
3 These include the Casablanca Stock Exchange (Bourse de Casablanca), the Iraq Stock Exchange, the Tunis Stock Exchange (Bourse de Tunis) and the Amman Stock Exchange.
4 Four of the region's markets, including exchanges in Damascus, Beirut, Kuwait and Cairo are currently organised as public entities and have no corporate form.
5 For a more detailed exploration of the role of MENA stock exchanges in corporate governance, please refer to the OECD's earlier report http://www.oecd.org/daf/ca/RoleofMENAstockexchanges.pdf